U. S. SENATE
Republican Policy Committee
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Who's *for the Middle Class?*
Tax Cuts Benefit Middle Class and Seniors

- The Budget Resolution Conference Report allows for a $245 billion tax reduction; this represents 2 percent of federal spending over the next five years.

- Deficit reduction will not be compromised. As a safeguard, the Budget Resolution includes a mechanism whereby the Congressional Budget Office (CBO) must certify that the spending growth reductions yield a dividend before the tax committees in both houses will be free to write a tax reduction package.

Tax Cuts Largely Benefit Middle Class

The liberals' mantra that cuts in Medicare are being made in order to give tax breaks to the rich belies the facts. The Budget Resolution adopted by Congress last month permits substantial tax relief to the middle class, including seniors, and increases Medicare spending in each of the next seven years.

In March 1995, the Joint Committee on Taxation (JCT) released a distributional analysis of the tax relief provisions contained in *The Contract with America.*[1] Although the Budget Resolution does not propose any specific changes in tax law, the JTC analysis illustrates how the middle class would fare under tax relief provisions supported by the Majority Party. The JCT analysis confirms that:

- **Individuals in all income categories will benefit from the Contract's tax relief proposals.**

- **70 percent of the savings from the tax relief proposals will go to households with incomes of less than $100,000.**

- **The tax burden decreases as a proportion of total revenue for households with annual incomes under $75,000, while it increases for those with annual incomes over $75,000.**

- **In the year 2000, households with incomes of $200,000 and over will pay a greater share of the federal tax burden under the terms of the Contract's tax relief proposals than they would have under the present law.**

- **90 percent of the benefits from the $500 per child tax credit will go to families with incomes under $100,000; nearly three-quarters of the benefits will go to families with incomes under $75,000.**

More in Middle Class Benefit than JCT Numbers Reveal

Adjusted Gross Income (AGI) is the income measure which comports most closely to what most people consider income. However, the JCT distributional analysis groups the income categories according to AGI *plus*: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) worker's compensation, (5) non-taxable Social Security benefits, (7) alternative minimum tax preference items, and (8) excluded income of U.S. citizens living abroad.

- When such a broad measure of income is used, **the distribution of tax relief benefits appear to go disproportionately to higher income groups** because relative to the conventional notion of income, the entire income distribution is pushed up.

- The JCT analysis, therefore, has the effect of placing people into a higher income category than would be realized if only take-home pay had been used to determine the income categories.

- For example, an individual who earns $35,000 a year is placed in the JCT $40,000 - $50,000 income category because of the addition of agency contributions and the other factors enumerated above.

- **Despite the fact that JCT used AGI *plus* as an income measure, the vast majority of the benefits under the Contract's tax relief proposals still are shown to go to the middle class.**

The Contract's tax relief provisions would have appeared to have had a more dramatic effect if they had been compared to federal individual income tax alone.

- Instead, in the JCT analysis, federal taxes are calculated to include employment tax (attributed to employees) and excise taxes (attributed to consumers) in addition to income tax, neither of which is impacted by the tax relief provisions. [Corporate income tax, individuals who are dependents of other taxpayers, and taxpayers with negative income are excluded from the analysis].

Who are "the Rich"?

The JCT analysis clearly illustrates that the overwhelming majority of the benefits from the Contract's tax relief proposals accrue to the middle class, not the rich. Unless, of course, an expansive definition of "the rich" is used. According to the Minority Party, "the rich" are:

- **Families with children** who will receive a $500 per child tax credit;

- **Married couples** who will not have to be boosted into a higher marginal tax rate due to their combined incomes because the current marriage tax penalty will be modified;

- **People who will be able to adopt a child**, aided by the adoption tax credit;

- **People who will have the opportunity to send their children to college or to buy their first home,** because they will be able to use the American Dream Savings Account, a new Individual Retirement Account, which permits funds to be withdrawn for these purposes without a penalty; and

- **People who will benefit when selling a home** from the inflation adjustment to the basis of indexed assets under the capital gains tax reductions.

Tax Cuts Benefit Seniors

Who else qualifies as rich? According to the liberals, "the rich" are also:

- **Seniors with retirement income** who will benefit from the repeal of President Clinton's 1993 Social Security benefits tax hike for senior citizens who earn more than $35,000 (singles) or $44,000 (couples); and

- **Employed seniors** between 65-69 years old who will no longer have one dollar in Social Security benefits taken away for every three dollars in extra income they earn above $11,280.

Many seniors will benefit from the broad middle-class tax relief measures in addition to the targeted provisions. After all, one can be both a senior citizen and a member of the middle class.

In addition to allowing for tax relief provisions, the Budget Resolution Conference Report calls for increases in spending on Medicare, including:

- **Spending $1.6 trillion in Medicare over the next seven years - twice the amount spent in the program over the previous seven years.**

- **The growth of the Medicare program at an average annual rate of 6.4 percent.**

- **A rise in per capita spending from $4,816 in 1995 to $6,734 in 2002 - an increase of 40 percent.**

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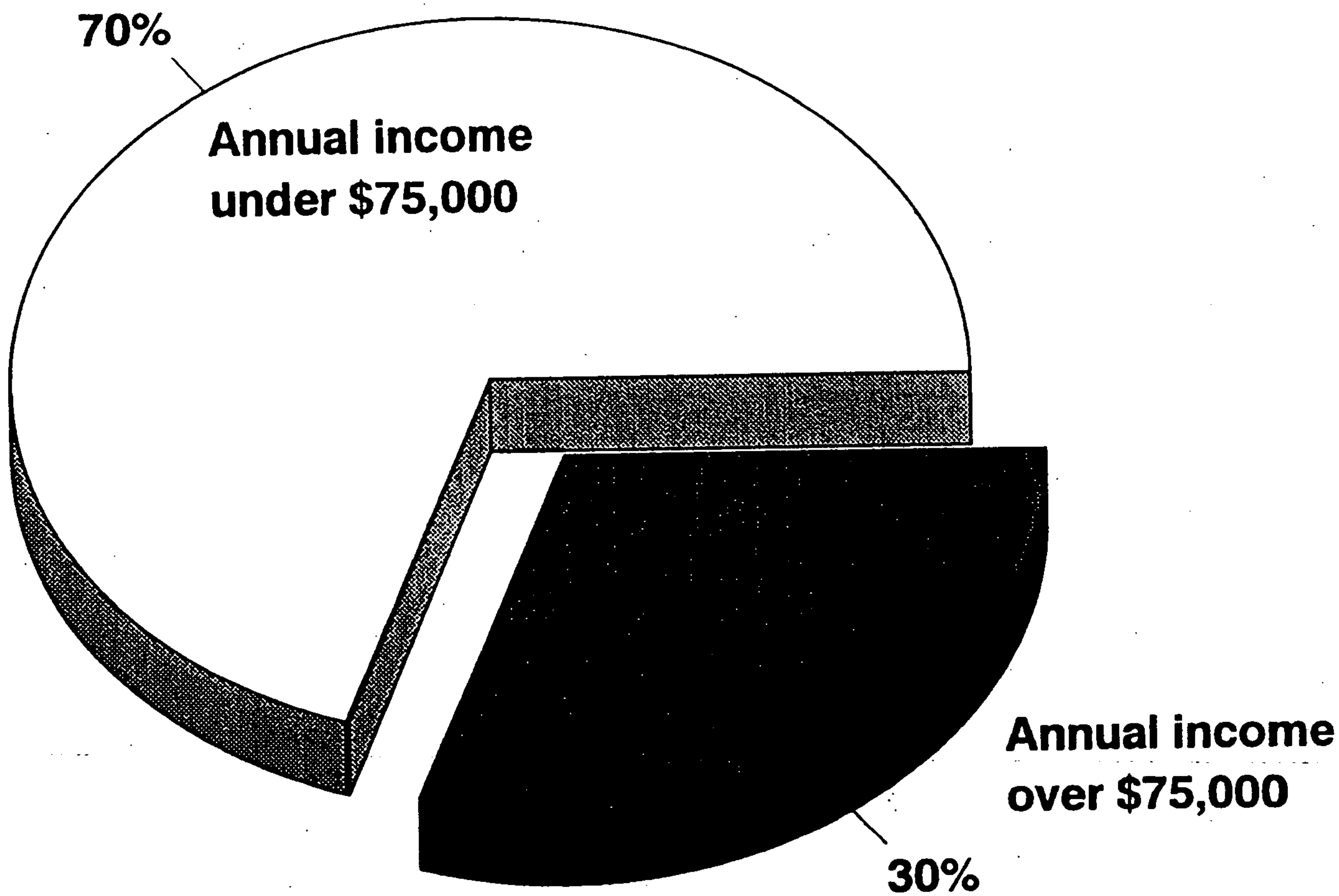
Endnote

1. Includes the family tax credit, the marriage penalty credit, American Dream Savings Accounts, spousal IRAs, repeal of the Social Security benefit tax increase, long term care, capital gains deduction and indexing, the credit for adoption expense, and the custodial care credit.

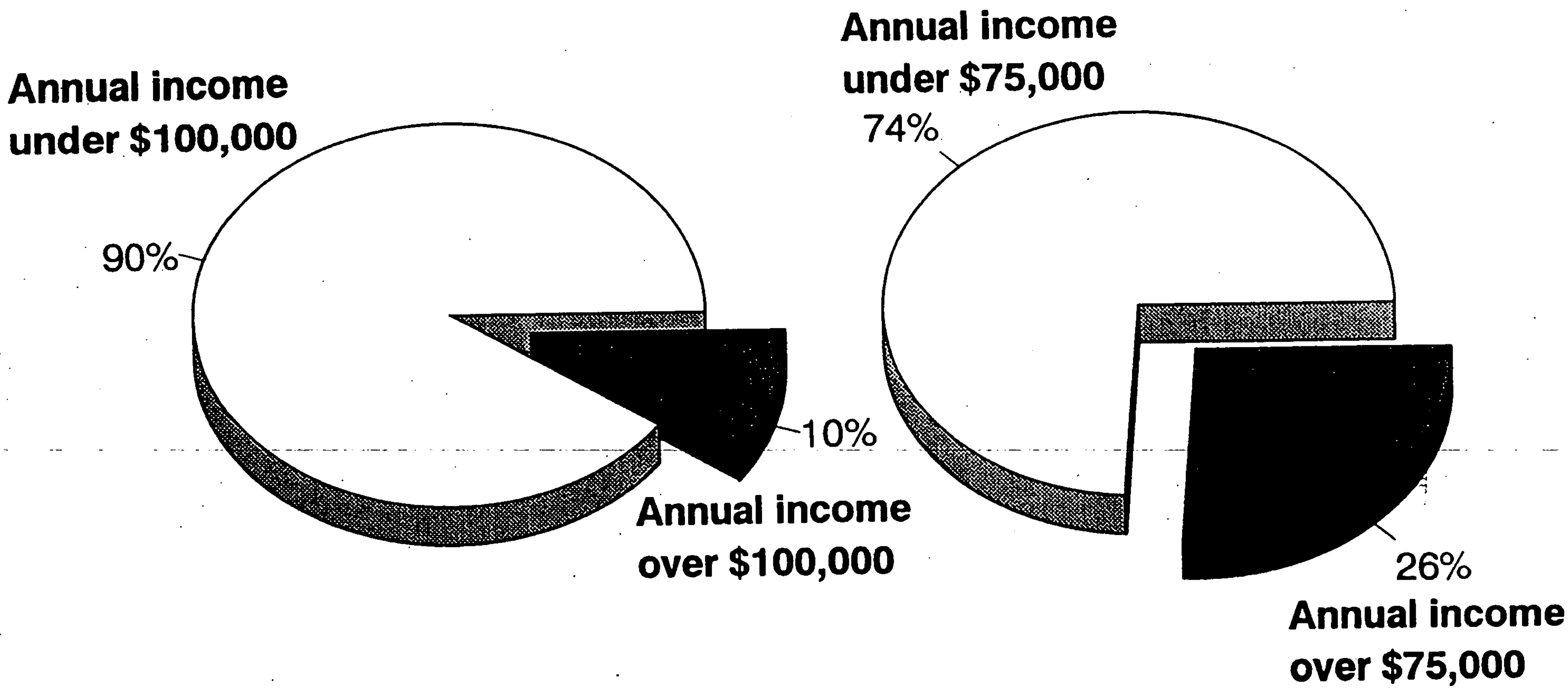
Distribution of Benefits from the Republican Tax Relief Provisions *



Source: Republican Policy Committee based on data from Joint Committee on Taxation

* as contained in The Contract with America

Distribution of Benefits from the $500 per Child Tax Credit *



Source: Republican Policy Committee based on data from the Joint Committee on Taxation

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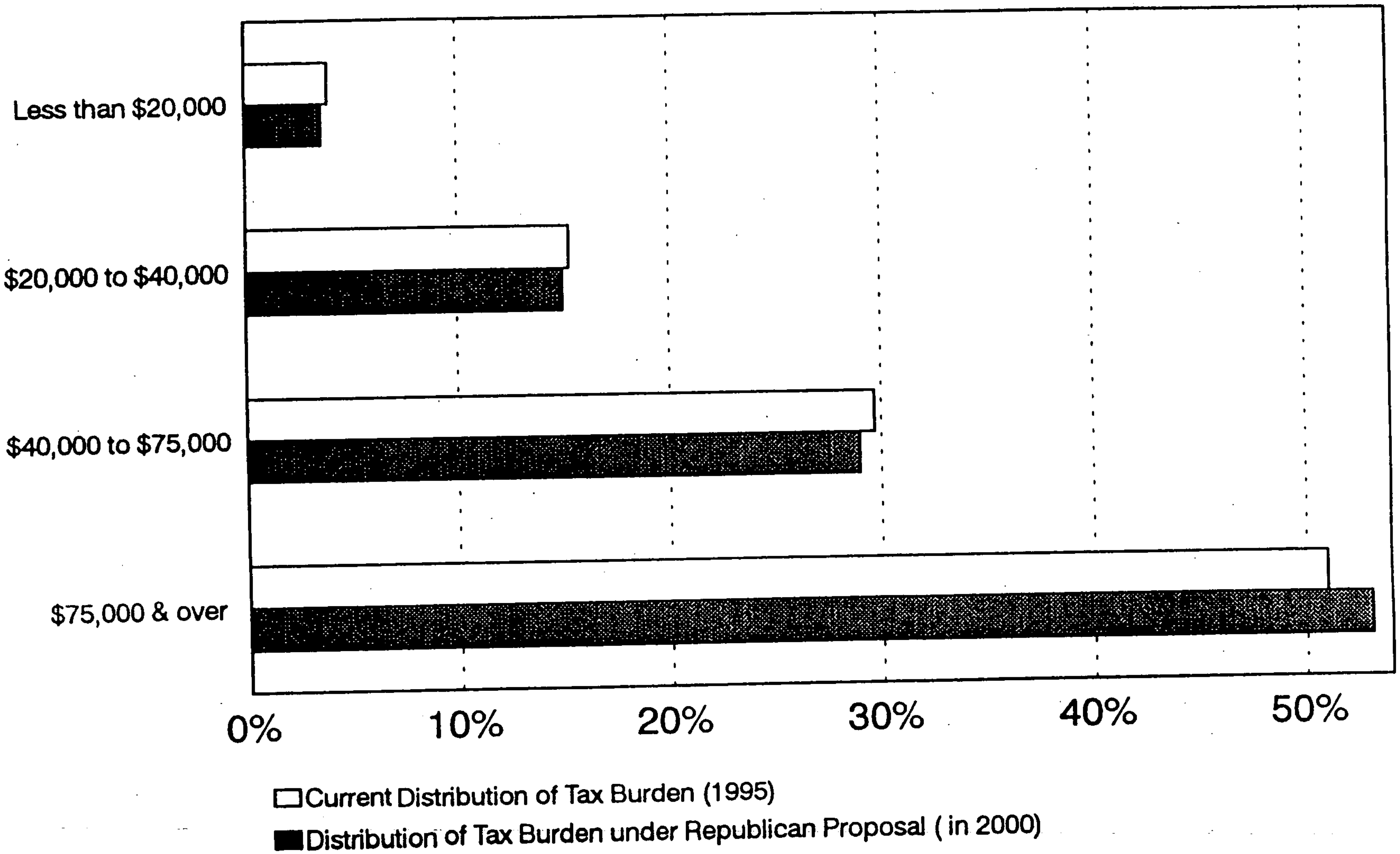
Distributional Effects of the Republican Tax Relief Provisions



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